

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00
FRB-03 INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 AGRE-00 PA-01
IO-13 NSC-05 SS-15 STR-07 CEA-01 /098 W
-----042142 310526Z/15

R 301445Z MAR 78
FM AMEMBASSY SAN JOSE
TO SECSTATE WASHDC 0640

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E.O. 11652: N/A
TAGS: ECON, CS
SUBJECT: PRESS ALLEGATIONS OF DETERIORATING ECONOMIC SITUATION

1. BRIEF VISITS OF IMF CENTRAL AMERICAN CHIEF MARCH 20 AND 21 TO PRESENT AND INCOMING GOCR OFFICIALS HAS LED TO A FLURRY OF PRESS INTERCHANGES BY ODUBER AND CARAZO FINANCIAL LEADERS. IMF OFFICIAL AND RESIDENT ECONOMIST, PREPARING FOR UPCOMING MID-YEAR IMF MISSION, ENCOUNTERED HIGHLY EMOTIONAL RESPONSE FROM INCOMING CENTRAL BANK PRESIDENT GONZALEZ AND ESPECIALLY ANTICIPATED CARAZO TEAM WOULD TAKE TO THE MEDIA TO BLAST PRESENT GOCR FOR NOT ALERTING COUNTRY TO POTENTIALLY DIFFICULT ECONOMIC OUTLOOK AS COFFEE BONANZA DEFATES.

2. ON MARCH 27, LEADING SAN JOSE DAILY "LA NACION" CARRIED FRONT PAGE STORY ALLEGING THAT IMF HAD BEEN WARNING GOCR AND CENTRAL BANK FOR THE PAST TWO YEARS ABOUT THE GROWING DETERIORATION OF THE ECONOMY. FURTHERMORE, IT WAS ALLEGED THAT THE IMF ESTIMATED A BUDGETARY DEFICIT OF TWO BILLION COLONES AND A BALANCE OF PAYMENTS DEFICIT OF 500 MILLION DOLLARS FOR 1977. STORY CONCLUDED BY STATING THAT INCOMING CARAZO ADMINISTRATION OFFICIALS WERE APPRE-

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HENSIVE THAT IMF MIGHT PRESS FOR "PARITY CHANGES IN THE COLON." SUBSEQUENT DAY'S EDITION OF "LA NACION" CARRIED FRONT PAGE REPORT OF INTERVIEW WITH MINISTER OF FINANCE-DESIGNATE HERNAN SAENZ JIMENEZ RE PREVIOUS DAY'S REPORT OF IMF WARNINGS. SAENZ EXPRESSED AMAZEMENT THAT A PROBLEM OF SUCH MAGNITUDE WOULD BE HANDLED IN SECRECY, BUT CONCEDED THAT HE DID NOT KNOW IF

"LA NACION" FIGURES WERE ACCURATE ONES.

3. CENTRAL BANK REACTION TO THESE STORIES CAME IN THE FORM OF A PRESS RELEASE PUBLISHED MARCH 29 IN LEADING DAILIES THAT REBUTTED POINT BY POINT ALL ALLEGATIONS CONTAINED IN "LA NACION". AS TO \$500 MILLION BALANCE OF PAYMENTS DEFICIT, THE CENTRAL BANK POINTED OUT THAT ACCORDING TO ITS PROJECTIONS THE 1978 DEFICIT WOULD BE \$28.5 MILLION AND THAT FOREIGN EXCHANGE RESERVES WOULD BE \$204 MILLION AT YEAR'S END, EQUIVALENT TO THREE MONTHS IMPORTS. CONCERNING THE ALLEGATIONS OF A TWO BILLION COLON DEFICIT, THE PRESS RELEASE RECALLED THAT THE BANK'S 1978 CREDIT AND MONETARY PROGRAM, WHICH WAS PUBLISHED IN DECEMBER 1977, ENVISAGES A 1.4 BILLION COLON DEFICIT. FURTHERMORE, IT POINTED OUT MINFIN WAS PREPARING A REPORT TO THE NATION ON THE FISCAL SITUATION, ANALYZING THE RESULTS OF 1977 AND MAKING PROJECTIONS FOR 1978.

4. COMMENT: "LA NACION'S" ALARMIST TREATMENT OF ISSUE HAS NOT CAUSED ANY IMMEDIATE SIGNIFICANT REACTION IN LOCAL FINANCIAL CIRCLES. DOLLAR-COLON EXCHANGE RATE ON LOCAL STOCK MARKET HAS REMAINED STEADY AT 8.66 COLONES TO THE DOLLAR, THE APPROXIMATE RATE THAT HAS PREVAILED FOR MORE THAN A YEAR.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL STABILITY, ALLEGATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978SANJO01390
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780139-0730
Format: TEL
From: SAN JOSE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978038/aaaaaglo.tel
Line Count: 86
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: fcd418c9-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3364690
Secure: OPEN
Status: NATIVE
Subject: PRESS ALLEGATIONS OF DETERIORATING ECONOMIC SITUATION
TAGS: ECON, CS
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/fcd418c9-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014